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PROSPECTING OR DISCOUNTING: USER-BASED INFLUENCES ON OPPORTUNITY DISCOVERY AND ENTREPRENEURIAL ACTION

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Principal Topics

When do opportunities emerge and how do entrepreneurs exploit them remain foundational questions of entrepreneurship research. The existing debate centers on whether opportunities evolve exogenously, through price discrepancies within a market or due to shocks to existing industries, or endogenously, through the creativity, hard work, or plain common luck of entrepreneurs themselves. We inform this debate by integrating theories of organizational learning, information processing and competitive dynamics to better understand how users - intermediates or end-use customers - affect the process of opportunity recognition for both incumbents and new ventures. Specifically, we investigate the extent to which firms employ user feedback to shape entrepreneurial opportunities both within the discovery stage (i.e. fuzzy front-end) and during the exploitation stage (i.e. new product/service launch).

Method

Briefly, our thesis is that users often “open windows” through which entrepreneurial firms identify and exploit opportunities. These windows are created both formal and informal feedback loops, in which entrepreneurial firms adopt and assimilate use-based innovations. Because inertial forces affect incumbent market leaders, marginalized firms or de novo startups are better positioned to recognize and seize potentially valuable information provided by users. For example, these firms may be able to leapfrog incumbents’ existing product or service offerings. This is especially true of transformational ideas generated by user groups, who are unsatisfied with the product offerings of incumbent providers.

Results and Implications

Our theoretical framework makes several contributions, but three deserve special attention: First, we integrate theories of organizational learning, information processing and competitive dynamics to inform the burgeoning literature on user-based innovation. The prospect of users influencing firms’ product development cycles is now all too common. Because the locus of user-based innovation is generally outside established firm boundaries, which parties are likely to act upon users’ distinct knowledge base, and more importantly appropriate any potential rent from the users remains undiscovered. Second, we delineate user-based influences at different stages of the product development cycle. This provides greater nuances to how firms leverage both formal and informal partners to create faster flow and higher quality products throughout their product pipeline. Third, this paper informs the extensive literature on opportunity recognition by identifying alternative influences on idea sourcing, and more importantly the shaping of viable opportunities.

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